



Actuarial & Employer Services Branch
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March 18, 2008

AGENDA ITEM 6

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: EFI's Parallel Valuation and Certification of the State and Schools as of June 30, 2006

II. PROGRAM: Actuarial & Employer Services Branch

III. RECOMMENDATION:

It is recommended that the Committee accept and recommend to the full Board the acceptance of EFI's report on the June 30, 2006 parallel valuation and certification of the actuarial valuation of the State and Schools plans in completion of Task 5 of Contract 2003-3236. A copy of the report is included in Attachment 1.

IV. ANALYSIS:

EFI recently completed their independent parallel valuation of the State and Schools plans. EFI has certified our results as "accurate within professional tolerances" and "computed in accordance with generally accepted actuarial principles" and "of consistently high quality". The report also stated that "the valuations of the State and Schools plans were prepared by the CalPERS staff in a careful, thorough, and professional manner."

The results of EFI's independent parallel valuation of the State and Schools plans show that

- Employer contribution rates for each plan were within 5% of those in the staff valuations
- The total fiscal year 2008 contribution amount for all State plans and the Schools pool was within 1.3% of the staff valuation
- Both the accrued and projected future liabilities computed by EFI were within 2% of the those calculated by CalPERS actuaries

As part of their audit, EFI identified 5 exception areas pertaining to the methods and assumptions adopted and/or employed by CalPERS actuaries.

- 1) The staff valuation of active state Miscellaneous and Schools members had applied a duty mortality rate assumption. Service death for these groups is so rare that no assumption is needed. EFI identified that the application of this assumption resulted in a very small overstatement of employer contributions. CalPERS actuarial staff agrees with EFI and will remove this assumption for the June 30, 2007 actuarial valuation.
- 2) EFI identified several plans in which there are a significant number of transferred members (i.e. members that are active within the system and have benefits due in one of the State Plans or in the Schools pool). This causes vesting and benefit service to differ for these members. EFI recommends that an experience study on pay increases and termination rates be performed on both types of service to determine if there is a possibility to improve the accuracy of the actuarial assumptions for these members. CalPERS actuarial staff has recently begun to work on an experience study and will attempt to incorporate this suggestion into the study.
- 3) EFI recommends combining the Group Term Life Insurance (GTLI) across the State Plans in order to stabilize rates for this program. Before proceeding with such a change, CalPERS actuarial staff will study benefits that could result by forming a GTLI pool for all State plans. Also, it is unclear whether or not such a change would be legally possible. CalPERS actuarial staff will work with CalPERS legal staff to determine if creating a GTLI pool would be a possibility under existing law.
- 4) EFI identified minor data processing issues relating to small groups of retirees and beneficiaries and the application of the Purchasing Power Protection Account (PPPA). EFI identified these issues as being immaterial. CalPERS actuarial staff agrees with EFI and will make the necessary corrections for the upcoming June 30, 2007 actuarial valuation.
- 5) Finally, EFI recommends that for purposes of projecting payroll for the amortization of unfunded liabilities for the State Miscellaneous plan that the payroll of the Tier 2 members be projected using expected termination and hiring patterns calculated via actuarial assumptions. CalPERS actuarial staff agrees with such recommendation and will implement this methodology change in the upcoming June 30, 2007 valuation. Note that such a methodology change is immaterial since it will not impact the employer contribution rate required by the State.

EFI concluded their audit by stating that “we are able to confidently certify the results of the actuarial valuation as of June 30, 2006.”

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Division.

VI. RESULTS/COSTS:

There are no costs associated with this item other than the payment of EFI's fee under contract 2003-3236.



David Lamoureux, Supervising Pension Actuary
Actuarial Office



Ron Seeling, Chief Actuary
Actuarial & Employer Services Branch

Attachment